Bringing it all together: Conclusions

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Assessing tax policy

- Baseline is a progressive neutral system which:
- Works as a system
- Doesn’t discriminate between similar activities
  - Except under very limited conditions
  - Balances economic and practical considerations
- Achieves progressivity as efficiently as possible
What we have

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  – Lack of joining up between income tax and NI
  – Personal and corporate taxes
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• Does not achieve progressivity efficiently
  – VAT zero rating a poor way to redistribute
  – Taxes and benefits damage work incentives more than necessary
Our proposals

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  – Integrating NI and income tax
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  – Widening the VAT base
  – Not taxing the normal return to capital
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• Whilst proposing sensible deviations from neutrality
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  – Imposing zero rate of VAT on childcare
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• Achieve progressivity through the direct tax and benefit system
  – Recognising constraints imposed by responses to incentives
  – Taking account of lifetime welfare
Earnings taxes should be progressive, coherent and reflective of behavioural responses

• Merge income tax and NICs

• End the tapering of personal allowances and move to a transparent and coherent rate schedule

• Introduce a single integrated benefit
  – Ensuring benefits fit together
  – Reducing administrative burden and complexity
  – Reducing the marginal rates faced by some low earners

• Focus on strengthening work incentives for:
  – Those aged 55 to 70
  – Those with school age children
Indirect taxes should be applied much more uniformly

• Remove nearly all zero and reduced rates of VAT
  – with a compensation package that addresses work incentives as well as distributional concerns
• Introduce a tax equivalent to VAT on financial services
• Replace council tax and stamp duty on property with a single tax proportional to property value
  – and based on current price
Environmental taxes should be focussed on the underlying externality

- There should be a consistent price on carbon emissions
  - through an extended EU ETS and a tax on other emissions
- Congestion charging needs eventually to replace most of current fuel duty
The normal return to saving should not be taxed
full labour income tax rate should be applied to above normal returns

• Returns on ordinary interest bearing accounts should be excluded from tax altogether

• Current basis of pension taxation should be maintained
  – But employer contributions should not be so heavily subsidised
  – And the tax free lump sum should be reformed

• A rate of return allowance should be available for substantial holdings of risky assets
  – Whilst maintaining equity ISAs

• Tax rates on income and capital gains should be equalised

• We would like these reforms to be accompanied by a more effective tax on wealth transfers
Business taxes should lead to neutrality between sources of finance and income

- An Allowance for Corporate Equity would align treatment of equity and debt finance
- Treatment of employment, self employment and corporate source income should be aligned
- Business rates should (if possible) be replaced by a land value tax
These are radical changes

• A strategy for the long term
  – Not intended for the next budget or the one after that
  – Though a clear sense of direction needs to be set out
• Involving a lot of winners and losers
  – Inevitable with structural reforms, especially where the current system favours certain groups
  – Important to look over the lifecycle
• And much work to be done
  – Corporate and savings changes need extensive consultation
  – Can’t be certain exactly how a land value tax, VAT on financial services and a wealth transfer tax would work

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Conclusions

• The design of tax matters hugely for national prosperity
  – Not surprising when tax takes nearly 40% of GDP
• Reform is hard but the prize is big
• There has been little sense of direction on tax policy
  – Which is not good politics either
• The review sets out a possible direction
  – and challenges government to define a strategy
• We should “have a tax system which looks like someone designed it on purpose” former US Treasury Secretary William E. Simon